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Central Intelligence Agency



Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

JANUARY 1985

JANUARI 1985	
CENTRAL AMERICAN MONTHLY REPORT #17	25X1
PERSPECTIVE	
Uncharacteristic tactical miscalculations by President Duarte coupled with the military's growing anxiety over the peace initiative generated coup plotting in December.	25X1 25X1
Duarte's perceived	25X1
tampering with the military institution and that senior officers had never intended actions that would jeopardize US assistance. Nevertheless, the pronounced military disgruntlement with the Executive has given extreme rightist political leaders opportunities to build upon their already strong influence with key officers, and the events of December underscore both the antipathy that Duarte continues to engender and thus, the inherently fragile nature of his administration.	25X1
Despite the military's public backing for the peace process, armed forces' distrust of Duarte apparently has increased since the first round of talks with the guerrillas in October. The President's subsequent lobbying for a cease-fire and his insistence that a notorious junior officer be cashiered for alleged human rights abuses—even though the officer had been exonerated by the Salvadoran Supreme court—generated strong resentment in the military. Ultimately, however, the catalyst	
This memorandum was prepared by the Central America North and South Branches, ALA. It was coordinated with the Directorate of Operations. It contains information available as of 5 January 1985. Questions and comments are welcome and should be addressed	
to Chief, Middle America-Caribbean Division, ALA,	25 X 1
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for the plotting was Duarte's efforts to promote Colonel Lopez Nuila, the Deputy Defense Minister for Public Security, despite strong military opposition stemming from Lopez's lack of combat experience and the perception among officers that his loyalty was 25X1 to Duarte rather than to the institution. Notwithstanding the omnission of Lopez's name on the final promotion list, the incident has offset earlier improved relations between the officer corps and Duarte. It has also raised questions about the President's judgment, especially during a period of delicate discussions with the guerrillas when any sign of dissension plays into the hands of the extreme left. We further believe that the sense of unease in military circles has been reinforced in the political arena. Here, Duarte apparently miscalculated the strength of opposition in the Assembly to his line veto of provisions in the new electoral law aimed at damaging Christian Democratic prospects in the legislative and municipal election scheduled for March. reporting from the US Embassy indicates that Duarte's action has increased cooperation between moderate rightists and extremists, and at month's end the Christian Democrats were anxiously seeking a means of minimizing their political quandary. 25X1 A major beneficiary--and prime instigator--of Duarte's difficulties at this juncture appears to be the extreme rightist circle of former Assembly leader Roberto D'Aubuisson. 25X1 25X1 Although their roles remain enigmatic at this point, senior officers clearly had knowledge of the plotting. 25X1 We believe fear of jeopardizing the war effort would be likely to override most personal and ideological animosities in the military toward Duarte, but that the rumblings

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institutional disgruntlement to the Salvadoran President -- and to

D'Aubuisson and his extreme rightist followers will continue to

at a minimum were intended to convey the seriousness of

Washington. Duarte, meanwhile, probably anticipates that

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capital's transportation, electrical, and telephone systems. In addition, a rebel splinter group—the Clara Elizabeth Ramirez Front (CERF)—has been responsible for a number of terrorist incidents in San Salvador since November, The insurgent clandestine Radio Venceremos' confirmation of the CERF's responsibility for one recent assassination suggests insurgent leadership approval of its	25X1 25X1
activities.	25X1
The Salvadoran Army continued sweep operations against guerrilla strongholds in December to keep pressure on the insurgents. Several operationsincluding an advance on northern Morazanproduced little contact with the enemy.	
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and the	
Salvadorans boarded, searched, and registered several civilian ships in the area.	25 X 1
Economic	
Attempts by the guerrillas to disrupt harvesting are not seriously hurting overall economic performance but are contributing to rural unemployment and losses for some growers. The US Embassy estimates that the cotton harvest for 1984/85 will increase slightly while coffee production is expected to fall by 7 percent. Export revenues will be unaffected, however, since production still exceeds the amount El Salvador is able to sell on world markets. The smaller coffee harvest is due more to inadequate production incentives than to destruction by guerrillas, according to the Embassy.	25X1
Meanwhile, exporters should benefit from the monetary board's decision in early December to allow a larger percentage of foreign exchange transactions at the parallel market rate. Approximately 40 percent of all imports and exports will now be traded at the parallel rate of US \$1=4 colones, and all others will continue to use the official rate of US \$1=2.5 colones, according to the Central Bank president. The new regulations should help ease the shortage of foreign exchange and pave the way for an official devaluation after the March election.	25X1
NICARAGUA	
Military	
Insurgents of the Nicaraguan Democratic Force (FDN) again	

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Meanwhile, the Sandinistas held another meeting with Miskito Indian insurgent leader Brooklyn Rivera in Colombia. This meeting failed to produce any agreements, but Rivera apparently believes he can obtain concessions that will improve conditions for his people on the Atlantic coast and gain a position of influence for himself. Talks are scheduled to resume in mid-January, but, in our judgment, Sandinista statements that autonomy will be guided by parameters set in 1982 leave little room for significant concessions. Economic Talks with Nicaragua's bank advisory committee scheduled for mid-December were again deferred until January The Sandinista regime, which has made no payment on its commercial bank debt since December 1983, probably will continue reneging on payments while requesting vet another rescheduling to avoid legal actions by the banks. Meanwhile, Planning Minister Ruiz's four-week visit to seven Soviet Bloc countries in Decemberhis fourth such trio in 1984underscores Sandinista anxiety about ensuring continued economic assistance to offset declining Western financial support. Ruiz apparently got no more than renewal of current trade and nonmilitary aid agreements. Shortages of crude oil, caused by Mexican delays in releasing a chartered Nicaraguan tanker, caused another temporary shutdown of Nicaragua's only refinery at the end of the month, Lack of crude oil earlier this year had closed the refinery at least twice while Managua, Mexico Citv, and Moscow wrestled over supply arrangements.	:lassifie	d in Part - Sanitized Copy Approved for Release 2012/01/19 : CIA-RDP85T01058R000100010001
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GUATEMALA

Political

Chief of State Mejia's efforts to reduce Guatemala's international ostracism were boosted in December by a state visit to Costa Rica and talks with Colombian President Betancur, who briefly visited Guatemala. Mejia met with Guatemalan exile leaders in San Jose, probably to demonstrate the military's commitment to hold fair elections next year. According to press reports, he discussed with several Social Democratic Party leaders their possible return to Guatemala to resume political activity. While a final decision on the party's participation apparently has not been reached, Mejia's willingness to talk with the group--which had previously collaborated with leftist guerrillas--should enhance his credibility with other political \circ parties at home. Although the meeting with the Colombian President produced few tangible results, we believe Betancur's praise of Guatemalan progress toward democratization will encourage Mejia to continue efforts to end his country's isolation.

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<u>Military</u>

Government offensives in recent months have pushed the rebels into more inaccessible areas, resulting in greater Army resupply difficulties and an erosion of morale among field units. military officers are increasingly frustrated over their inability to deal the guerrillas a crippling blow because the Army lacks the equipment to pursue the insurgents farther into the hinterland. declining morale among line officers stems from inadequate helicopter support for medical evacuation and resupply operations. Troops returning from action in northern Guatemala also have complained that poor support from the senior staff is contributing to casualties, We believe many officers will attribute the difficulties to lack of significant US military assistance. In view of the military's role in moving Guatemala toward political liberalization, some officers are likely to become increasingly resentful over the lack of US aid.

Economic

Mejia used his meeting with Costa Rican President Monge to help settle trade differences between the two countries. US Embassy and press reports indicate that an agreement was reached whereby Guatemala will immediately repay some \$19 million of its

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outstanding \$62 million commercial debt to Costa Rica. This would allow normal bilateral trade--now halted for some two months by the repayment issue--to resume. The new trade arrangement is likely to soften domestic criticism of Mejia's economic policies, which have failed to reduce unemployment, resolve foreign exchange difficulties, and meet IMF guidelines.

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BELIZE

Political

The conservative United Democratic Party's overwhelming victory in national elections on 14 December dealt a serious blow to the small but influential leftist faction in former Prime Minister Price's People's United Party. Virtually all the ruling party's leftist candidates, including pro-Cuban Health Minister Shoman and Education Minister Musa, were defeated. Although the leftists probably will continue to work within the party structure in hopes of taking over once Price steps down, the electoral setback may prompt the group's more radical elements to consider forming a new party to challenge the government more directly.

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In the vote's biggest surprise, Price—a moderate who had never lost a national election since Belize attained self-rule from the UK in 1964—lost his own seat in the House of Representatives to a 25-year-old political novice. Price savs he will remain active in politics in an effort to regroup his party, which returned only six incumbents—a mixture of moderates and conservatives—to the 28-member House. The opposition, however, returned all four of its incumbents and swept all 10 of the new electoral divisions in garnering 21 seats.

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We believe the opposition's victory is likely to produce somewhat closer cooperation with the US on a broad range of issues, including drug eradication and regional security policies. New Prime Minister Manuel Esquivel already has announced that his government will crack down on the country's growing drug problem, and that it would consider the relocation of the US Army School of the Americas—recently closed in Panama—to Belize if such a proposal were put forth. Although Esquivel probably will drop his predecessor's more neutral position on East—West issues, he is not uncritical of US policy and remains wary of Washington's political and military power. Moreover, Esquivel's longheld suspicion of Guatemala suggests that he will adopt—at least initially—a much harder negotiating line on the two countries' border dispute. Esquivel recently

stated that earlier proposals are no longer valid, and that "dialogue with Guatemala must start from zero."

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Economic

Economic matters, in our view, will be a high priority for the new government. Esquivel says he will seek increased foreign investment in Belize and closer economic ties with the US. Meanwhile, the former government's recent success in securing a \$7.2 million IMF standby arrangement should help the new administration in its initial efforts to bring about economic recovery.

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HONDURAS

Political

President Suazo's public endorsement of a controversial former cabinet member for president in the November 1985 election has divided the ruling Liberal Party and rekindled speculation that he intends to seek an unconstitutional extension of his The US Embassy reports growing opposition to Suazo's endorsement of former Minister of the Presidency Carlos Flores, whose ethnic Arab background, imperious style, and reputation for political intrigue are unacceptable to many Hondurans--particularly the armed forces. Several top Liberal Party leaders said that Flores is Suazo's personal preference, rather than the party's, and the President of the National Congress broke partisan ranks and launched his own presidential campaign. More significantly, a Tegucigalpa newspaper with close ties to the military editorialized that Suazo's choice of Flores was intended to destabilize Honduran politics and make an extension of his own presidency more attractive. The Embassy reports the president sent an emissary in late November to sound out the military on an extension but was turned down.

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senior military officers believe Suazo will again solicit their support for an extension, arguing that political party factionalism and voter registration problems make it necessary to postpone the elections. We believe the military is unlikely to back such a move and instead will press Suazo to refrain from manipulating the electoral process.

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Economic

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We believe Honduras is more likely to adjust its overvalued currency following recent moves by Guatemala and El Salvador that effectively devalued their currencies without sparking political

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protests. Honduras is now the only country in the Central American Common Market group in recent years neither to devalue nor legalize a parallel foreign exchange market, putting both exporters and import substitution industries at a competitive disadvantage. Although the Suazo administration continues to express it opposition to exchange reform, it will come under increasing pressure from international aid donors and the private sector to establish a legal parallel market. The untenable position of exporters was highlighted this month when Standard Fruit Company decided to sell an uncompetitive pineapple farm in Honduras.

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PANAMA

Political/Economic

The political and economic crisis sparked by President Barletta's efforts to introduce austerity measures continued during December. A coalition of professional, teacher, business, and labor leaders continued to protest austerity measures enacted in mid-November and rejected an alternate fiscal program that Barletta proposed on 6 December. In addition to demanding the total repeal of austerity proposals, the coalition called for disclosure and reduction of the military budget and an end to corruption and government mismanagement. For the second time, Barletta placated protesters by unconditionally withdrawing the legislation. He promised a compromise measure that, according to the US Embassy, probably will pass after the Assembly reconvenes in January. To secure short term economic support to meet debt payments, Barletta negotiated a 90-day extension of payments with the banking community so that an IMF agreement and a restructured loan for 1985 and 1986 can be completed.

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We believe Barletta's inept handling of the fiscal issue has weakened his administration and rekindled popular dislike of the Defense Forces. The opposition, shifting its attention from strictly economic issues to government corruption and accountability and the military's role in society, probably will demand legislative inquiries into government spending, specifically the defense budget. Although Defense Chief Noriega has given the civilian administration a relatively free hand, he is likely to seek greater control by pressuring Barletta to replace some Cabinet members with advisers linked to the military.

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COSTA RICA

Political

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The US Embassy reports that, following a period of relative quiet, San Jose early this month charged Managua with several border incursions. According to a Civil Guard officer, Nicaraguan aircraft and patrol boats violated Costa Rican territory on the Atlantic coast. Security officials believe the Nicaraguans were pursuing Sandinista Army deserters who--along with their Soviet-made launch--were later picked up by Costa Rican Guardsmen.

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Meanwhile, leaders of four Costa Rican leftist groups met in Havana in November to sign a unity pact in return for a promise of \$1 million from Cuba and Libya as well as 1,000 rifles and ammunition. The equipment is to be shipped through Nicaragua in January. The Cubaninspired agreement reportedly is designed to improve the left's electoral prospects and probably to increase violence in Costa Rica over the next few years. In our opinion, Havana believes pressure from the domestic left will force San Jose to be more accommodating toward Managua.

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Economic

The Monge administration fears considerable economic dislocation and leftist labor unrest if United Brands follows through with plans to close its banana production facility on the Pacific coast. The company's decision follows several years of decreased profits, banana disease, and a recent two-month, Communist-inspired strike that cost several million dollars in lost revenue. Before 1984, the Pacific plantations produced some \$40 million annually in foreign exchange earnings—almost 5 percent of national export receipts—and the loss of these revenues probably will adversely affect Costa Rica's proposed IMF standby agreement. Moreover, government officials told US Embassy personnel that the loss of some 2,500 jobs will increase the 10 percent unemployment rate and probably result in some social unrest.

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REGIONAL PRACE NEGOTIATIONS

The Contadora Group continues to pay little heed to the Core Four proposals for changes in the draft treaty of 7 September. A joint Colombian-Mexican communique during President Betancur's visit to Mexico City in early December obliquely dismissed many of the Core Four reservations and implied that US military cooperation with Central American governments is an obstacle to the peace process.

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The Contadora nations apparently have decided to pressure

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25 X 1	the Central Americans to accept a minimally revised treaty. the Group is working for a meeting with	1
25X1	the Central American Foreign Ministers in January. Contadora members have agreed on a division of labor. Mexico is to take the lead with Nicaragua and Costa Rica. Panama, Venezuela, and Colombia each will host one of the other Central American countries in bilateral talks.	25X1
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	The Group's rejection of most of the Core Four proposals leaves a number of key issuesincluding foreign military advisers, bases, and maneuversunresolved. Honduras and Costa Rica will be reluctant to sign a treaty without further guarantees protecting them from Nicaraguan military power, and El Salvador will be particularly difficult to persuade. The US Embassy reports that the Salvadoran Government, angered by Mexico's sponsorship of a UN resolution on human rights in El Salvador and continuing bias in favor of Nicaragua, intends to confront the Mexicans at the Contadora talks. Guatemala, while likely to maintain an ostensibly neutral position to avoid offending Mexico, probably will follow the lead of the other Core Four countries.	
	Nicaragua may be the only one to accept the new version. Because the changes endorsed by the Contadora Group are minor, the Sandinistas will have little to lose. Moreover, by embracing the revised draft Nicaragua will reap favorable publicity for its "flexibility."	
	If no agreement is forthcoming at the combined Contadora-Central American meeting, the Group will propose a presidential summit to decide whether the US and Cuba should be invited to participate in the talks Contadora countries probably believe the US would refuse, and the proposal appears intended to pressure the Core Four by placing the onus on them and indirectly on the US for the success or failure of the Contadora process.	25X 25X
	Planning Minister Ruiz traveled to East Germany, Czechoslovakia, Romania, Bulgaria, Hungary, Poland, and the USSR for discussions on economic assistance but apparently got no more than renewal of trade and nonmilitary aid agreements.	25X1
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25 Nov-12 Dec	Foreign Trade Minister Martinez headed a trade delegation to Libya, Algeria, and Canada.	<u> </u>
)ec	Junta Secretary Reyes and Vice Minister of Foreign Affairs Talavera toured Mexico, Guatemala, Venezuela, and Colombia to extend invitations to President-elect Ortega's inauguration.	
Dec	Vice President-elect Ramirez met with President de la Madrid in Mexico.	
0-12 Dec	Domestic opposition leaders Arturo Cruz and Pedro Chamorro and insurgent leader Alfonso Robelo attended a conference in Spain on the problems of democracy in Nicaragua.	
3 Dec	Former French Prime Minister Mauroy visited Nicaragua for meetings with regime officials.	
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COMING EVENTS IN CENTRAL AMERICA DURING JANUARY	
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3 January	Salvadoran Supreme Court reconvenes and will likely rule shortly thereafter on the constitutionality of President Duarte's line item veto of the electoral law
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3 January	Salvadoran Supreme Court reconvenes and will likely rule shortly thereafter on the constitutionality of President Duarte's line item veto of the electoral law Honduran and UNHCR officials to meet in Geneval
3 January7 January	Salvadoran Supreme Court reconvenes and will likely rule shortly thereafter on the constitutionality of President Duarte's line item veto of the electoral law Honduran and UNHCR officials to meet in Genev on repatriation of Salvadoran refugees Contadora Group foreign ministers to meet in

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Meeting between Nicaraguan Miskito leader Rivera and Sandinista officials

US-Honduran talks on security issues continue

with meeting of ad hoc group in Tegucigalpa

20 January

23 January

CENTRAL AMERICA MONTHLY REPORT #17

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25X1
                 30 - Legislative Liaison - 7B04 (attn:
                 31 -
                 32 - PDB Staff - 7F30
                 33 \& 34 - D/ALA - 3F45
                 35 - C/DDO/LA - 3C3203
25X1
                 36 - DDO/LA - 3D5309
                 37 - C/DDO/LA, 3C3203
                                                                             25X1
                                  - 3B44
                 38 - C/DDO/LA
25X1
                               - 3B44
                 39 - <u>C/LA</u>
                                                                             25X1
                 40 -
                                  - 3D00
                 41 -
                                   - GH 62
                                                                             25X1
                 42 & 43 - ALA/PS - 3F38
                                                                             25X1
```

Declassified in Part - Sanitized Copy Approved for Release 2012/01/19 : CIA-RDP85T01058R00010001001-4

17

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44 - ALA Research Director - 3F44
45 - 48 - CPAS/IMC/CB - 7G07
49 - DDI/CPAS/ISS - 7G40
50 - CPAS/CDPB/CC - GH25
                                  1H39
                                                                      25X1
51 -
                      C/LA
52 - C/MCD
53 - DC/MCD/CU
54 - DC/MCD/CA
55 - C/CAN
56 - C/CAS
57 - DC/CAN
58 - C/MX
59 - C/CAR
60 - <u>C/CU</u>
                                                                      25X1
61 -
62 -
63 -
64 -
65 -
66 -
67 -
68 -
69 -
70 -
71 -
72 -
73 -
74 -
75 - MCD Files
76-77 - CA Files
                                 (11 January 1985)
```

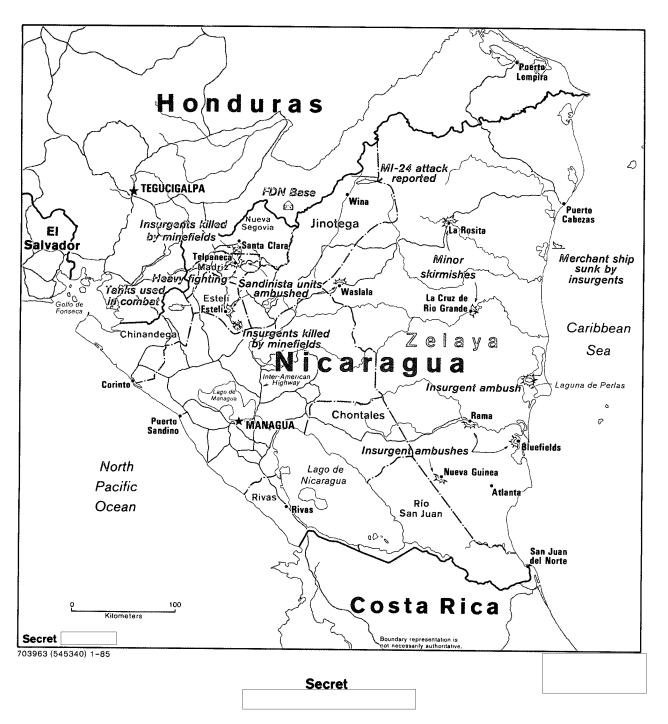
25X1

25X1

DDI/ALA/MC/CA/



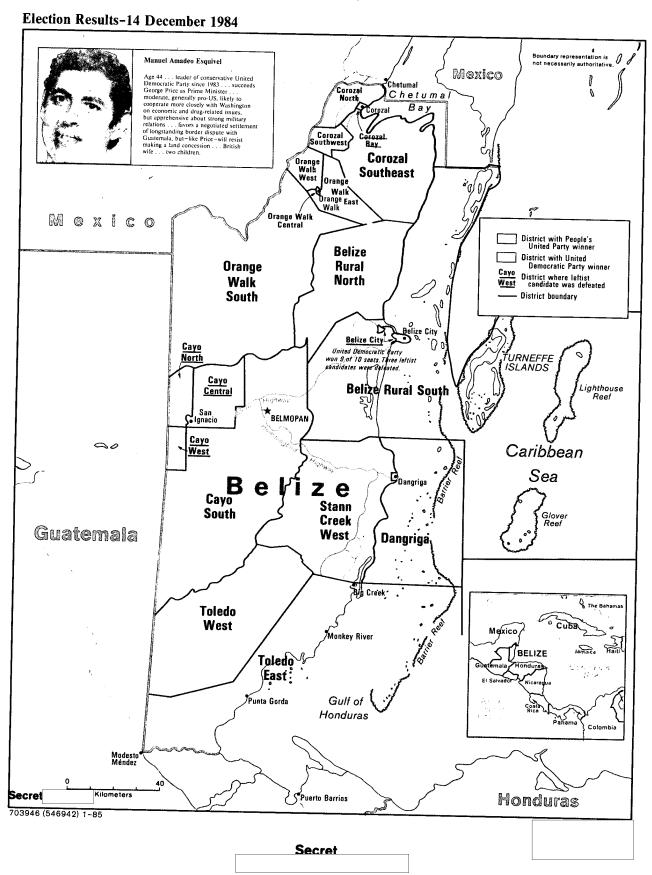
Secret



25X1

d

Secret



25X1 25X1